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11. (SBU) Chairman Reyes and Members of the Delegation, a warm welcome to the Philippines! The relationship and spirit of partnership between the United States and the Philippines are strong. Your visit comes at a time when the Philippine military is still mourning the loss of soldiers in Mindanao while bravely fighting terrorism. Your delegation's condolences would help cement our spirit of partnership. The unique bond shared between U.S. and Philippine veterans further strengthens our ties, as the memory of our partnership in World War II resonates here. U.S. interests in this major non-NATO ally center on strengthening democracy, fostering economic growth, fighting terrorism, and providing superb services to our American and Filipino publics. The U.S. is the Philippines' largest trading partner, the largest investor, and the largest donor of foreign assistance.

12. (SBU) During your visit, you will meet with senior members of the Philippine government and Congress, and U.S. business, to reinforce our strong bilateral ties, as well as pay tribute to the dead and missing from World War II immortalized at the American Cemetery. You will travel to Mindanao to see first hand our joint counterterrorism efforts. Our entire team looks forward to making your visit productive and useful. End Summary.

BACKGROUND

13. (U) The Philippines, with almost 90 million people, has one of the fastest-growing populations in Asia. Metro Manila, home to at least 12 million people, is the largest city in a country made up of over 7,000 mainly mountainous islands. Literacy (94%) remains high, although the standard of public education and other government services is declining. Filipinos are mainly Roman Catholic (83%) or otherwise Christian (10%) with a small Muslim minority (6%) based in Mindanao. Approximately 40 percent of Filipinos earn less than \$2 per day, with a much higher percentage of Muslims in Mindanao eking out a living below this threshold.

PHILIPPINE POLITICS

14. (SBU) Philippine political life is free-wheeling, centered primarily on the personal charisma of individual political leaders, and largely oligarchic, with most wealth and political power concentrated among a few influential families. Then-Vice President

Gloria Macapagal Arroyo assumed the Presidency in 2001 after a "people power" movement swept out her predecessor. She has regained her footing after a series of challenges to her leadership, including an unsuccessful impeachment efforts in 2005 and 2006 -- based on accusations of vote rigging in 2004 elections -- and an alleged coup plot that led to her week-long declaration of a "State of National Emergency" in February 2006.

15. (SBU) Midterm elections in May left the Senate still in opposition hands, while the President's allies increased their hold on both the House of Representatives and local government. While the threat of impeachment has now been decisively removed by overwhelming control of the House, personality-driven politics remain visceral as presidential hopefuls in the Senate are already campaigning for the 2010 presidential election. We fully expect President Arroyo to complete her term in 2010. The rancorous political atmosphere will complicate her efforts to establish a legacy, which she has focused on the economy and jobs, infrastructure, and seeking stability and peace on Mindanao.

ECONOMICS AND TRADE

16. (U) The U.S. remains the Philippines' largest trading partner, with over \$17.3 billion in two-way merchandise trade. Major U.S. exports include electronics and agriculture. The U.S. is also the largest investor here, with \$6.6 billion in equity. This week Texas Instruments broke ground on a \$1 billion facility to produce microchips at the former Clark Airbase, while AES, a Virginia-based power generation and utility company, announced a \$930 million acquisition of a large coal-fired power plant through the government's privatization scheme.

17. (U) The Philippine economy performed well in 2006, and has continued to grow strongly in 2007. For the first half of the year, the stock market charted new territory, and the peso soared against the dollar on the back of respectable export growth and a surge in remittances by overseas Filipinos. However, both the stock market and the peso have slipped slightly during the worldwide financial turbulence of the past month. The government has attacked its budget deficit over the past four years through a combination of expenditure restraint and tax increases, and has begun to reduce its foreign debt. There nonetheless remain substantial weaknesses in the government's ability to collect taxes, and much remains to be accomplished on the economic reform agenda, particularly on improving the investment climate. The Arroyo administration has an impressive agenda -- privatize the electric sector, build infrastructure, increase funding for education, liberalize civil aviation, reduce business red tape -- but is moving timidly on most of these initiatives. Embassy Manila is a strong advocate for U.S. business interests through our Economic Section, the Foreign Commercial Service, and the Foreign Agricultural Service.

18. (SBU) Corruption and restrictions on foreign investment shield powerful local interests who thus maintain their privileged market positions and their increasing wealth. Well-functioning "special economic zones" (including former U.S. bases at Clark and Subic) in which most foreign investment is harbored demonstrate that the government can implement the policies necessary to compete globally. Many observers believe President Arroyo's best chance for a lasting legacy would be in implementing the economic reforms she knows could make a real contribution to the prosperity of her people, while establishing greater peace in Mindanao.

19. (U) U.S.-Philippines development cooperation focuses on economic growth, governance, health, education, and the environment. The major thrust of our development assistance is in conflict-affected areas of Mindanao. Along with USAID, USDA and the Peace Corps play an important role in promoting socio-economic progress.

COUNTERTERRORISM EFFORTS

110. (SBU) Three U.S.-designated terrorist organizations are active and dangerous in the Philippines, despite significant military success against them over the past year. Parts of Muslim Mindanao

remain a sanctuary for terrorists who are responsible for bombings in the Philippines and Indonesia and kidnapping and killing of Americans and Filipinos. President Arroyo is justly proud that the Philippine military has killed several top terrorist leaders in its focused military operations. However, in recent weeks, the Philippine military lost some forty soldiers in two clashes with these terrorist and insurgent groups, including ten who were beheaded on July 10. The Philippine military killed some thirty people in response. The Philippine military has carefully avoided restarting a more general conflict with Muslim insurgents (see below). Improved operational readiness rates for aircraft and vessels, casualty treatment, night helicopter medical evacuations, and tactical field skills are directly attributable to U.S. training, advice, and assistance. Equally impressive are the military's successful efforts to help separate local populations from insurgents through extensive civil-military and humanitarian activities. Separately, the New People's Army of the Communist Party continues to extort, bomb and attack remote police and military outposts.

PEACE PROCESS IN MINDANAO

¶12. (SBU) Negotiations with the Muslim insurgency, under Malaysian auspices, are making headway toward establishing a larger Muslim political entity within the Philippines that would determine its own governing structure. Once the territory of this entity is determined, the challenge will be to bring together Mindanao's diverse Muslim, Christian and native communities. We are pressing for concrete progress on this complex agenda this year. Successful peace in Mindanao would make the Philippines a stronger, more outward looking partner, while also denying terrorists ungoverned spaces.

¶13. (U) Development assistance from the U.S., complemented by increasing support from the World Bank, Japan, Australia and others, has established growing zones of peace and private sector-led growth in Mindanao. About 60% of USAID's annual development assistance is channeled to conflict-affected areas of Mindanao to promote economic opportunities, build infrastructure, and carry out health, renewable energy, environment, education, local governance, and livelihood programs. These programs attack the conditions of poverty that provide breeding grounds for terrorists. USAID coordinates its activities with the U.S. military's Civil Affairs programs. Our exchange programs for students and community leaders offer a chance to interact with responsible and moderate Muslims.

HUMAN RIGHTS: COMBATING UNLAWFUL KILLINGS

¶14. (SBU) President Arroyo has taken several steps to address the complex problem of unlawful killings. While many of these deaths and disappearances are more likely attributable to local disputes than to military or police action, it is clear that the government needs to do more to ensure that these crimes are fully investigated and that responsible parties -- whether connected to military or police -- are brought to justice. The problem is closely related to a judicial system which is strained beyond its capacity and inefficient. The government has responded with a police task force to investigate the killings and file charges, specially designated courts to handle them, a rejuvenated Presidential Human Rights Commission, a new Armed Forces Human Rights office to investigate allegations, and additional funding for the Commission on Human Rights. President Arroyo spoke out strongly on the issue in her recent State of the Union address. Still, much more needs to be done.

VETERANS ISSUES

¶15. (U) The U.S. Department of Veterans Affairs Manila Regional Office and Outpatient Clinic are the VA's only full-service facilities located in a foreign country. VA provides monetary benefits to approximately 15,000 veterans and dependents in the Philippines and provides health care to approximately 4,000 veterans

residing here. The VA operation in Manila has a sizeable economic impact here, worth about \$143.5 million in FY 2005. This figure factors in monetary benefit payments, operating costs, and medical equipment provided to the Philippine Government's Veterans Memorial Medical Center. Due to the low standard of living in the Philippines and the cultural preference to conduct business through middlemen, claims fraud remains a significant challenge. While we have success in identifying fraud, obtaining prosecutions through the Philippine justice system is difficult.

¶16. (SBU) Filipino veterans have over the years challenged and questioned what they perceive as lack of equality in the benefits they receive as compared to those received by U.S. veterans of WWII or those Filipino veterans residing in the U.S. This issue continues to be the focus of intense lobbying by various Filipino advocacy groups. Filipino veterans and their dependents enjoy a far greater standard of living here than their ineligible counterparts, many of whom receive benefits from the chronically in-debt Philippine Veterans Affairs Office at the rate of approximately \$100 per month.

¶17. (U) During your visit, you will honor the dead and missing from World War II at a wreath-laying ceremony at the Manila American Cemetery and Memorial. The cemetery is the largest in area of the cemeteries built and administered by the American Battle Monuments Commission, occupying 152 acres of the former Fort William McKinley. 17,206 of our military Dead, including 3,744 burials of unknown soldiers and 570 Philippine nationals, are buried at the cemetery. Most of these soldiers lost their lives in defense of the Philippines in 1941 and 1942 or in the long but victorious return of the American forces in 1944.

SOCIAL SECURITY ADMINISTRATION

¶18. (U) The Social Security Administration Division in Manila serves as the hub for social security work for all the Embassies and Consulates in the East Asia Pacific Region. The division currently serves 41,000 beneficiaries and pays out over 25 million dollars each month. In the Philippines alone, there are almost 20,000 beneficiaries.

CONSULAR AFFAIRS

¶19. (U) The Consular Section provides services (reports of birth, passports, notarial and emergency support) to the approximately 130,000 Americans living in the Philippines as well as the additional roughly 120,000 visiting the Philippines at any given time. The Section issues about 60,000 immigrant visas a year, including visas to large numbers of nurses, teachers, and physical therapists. The Section sees almost 200,000 nonimmigrant visa applicants annually, including large numbers of merchant mariners and temporary seasonal workers.

THEMES AND TALKING POINTS

¶20. (SBU) You may wish to use the following talking points in your meetings with Philippine government officials and business leaders, and in any public remarks:

-- The Philippines is a committed partner in the vital effort to fight terrorism and secure peace and prosperity for our two nations. Our delegation looks forward to learning more about U.S.-Philippine cooperation during this visit.

-- Our condolences to the Armed Forces of the Philippines and the families of the soldiers who recently lost their lives in Mindanao.

-- The U.S. military advises, assists, and shares information with the Philippine military, and conducts exercises, civil-military and humanitarian work, and other visits here at the invitation of the Philippine government.

-- Philippine Defense Reform represents a commitment to undertake fundamental institutional change within the Armed Forces of the Philippines. We're proud to be partners in this program.

-- We take the issue of extra-judicial killings seriously -- murder is murder. It is important to apprehend suspects in these killings and provide a fair but judicial process. We are encouraged by steps the Philippine government has taken to try to get control of this problem.

-- We are working with the Philippines to help achieve higher economic growth and spread this growth, especially to the poor and disadvantaged.

-- (If asked about the case of a U.S. Marine convicted of rape of a Filipina at Subic in November 2005) I cannot comment on an ongoing legal case in the Philippine justice system. Both our governments remain committed to the pursuit of justice as well as adherence to the terms of the Visiting Forces Agreement.

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